



Directorate of
Intelligence

Secret

25X1

International Oil Market: The 1983 Outlook

25X1

An Intelligence Assessment

MASTER FILE COPY

**DO NOT GIVE OUT
OR MARK ON**

Secret

GI 83-10029
February 1983

Copy 427

Page Denied



Directorate of
Intelligence

Secret

25X1

International Oil Market: The 1983 Outlook

25X1

An Intelligence Assessment

This assessment was prepared by [redacted]
[redacted] of the Office of Global Issues.
Comments and queries are welcome and may be
directed to the Chief, Energy Issues Branch, OGI, on
[redacted]

25X1

25X1

25X1

Secret

GI 83-10029
February 1983

Secret

25X1

**International Oil Market:
The 1983 Outlook**

25X1

Key Judgments

*Information available
as of 1 February 1983
was used in this report.*

OPEC's latest failure to agree on oil prices and production quotas will intensify downward pressure on prices. Buyers will further delay purchases and draw upon inventories in anticipation of lower prices and a seasonal downturn in consumption this spring. Unless an agreement on production quotas or price cuts is reached soon, Saudi Arabia and the other Arab producers in the Persian Gulf could bear the brunt of the 1-million-barrel-per-day or more decline in demand that is already under way. We believe that rather than accept this outcome, Gulf producers will carry out their threat to cut prices, risking retaliatory cuts by other producers.

The demand outlook for the balance of 1983 offers little relief for OPEC producers. Even with a modest economic growth of 2 percent in the OECD countries, demand for OPEC oil, in our estimation, will only average about 20 million b/d for the year, or about the same as last year. This assessment is in line with most recent industry forecasts. From our assessment of market trends and industry forecasts, we believe that:

- Non-Communist oil consumption will fall slightly to about 44.2 million b/d.
- Non-OPEC supplies will rise by about 500,000 b/d, largely as a result of increased production from Mexico.
- Inventories will decline slightly with lower commercial inventories more than offsetting increased government stockpiles.

Even if producers hold the line on prices in the near term, they still face extremely tough going if the expected economic recovery fails to materialize. Another year of sharply falling oil consumption and further inventory reductions could push demand for OPEC oil down to 19 million b/d. The key to preventing a decline in prices rests with Saudi Arabia and other Gulf producers. Thus far, Riyadh has absorbed the production decline needed to maintain the price structure. However, the Saudis, who have little room or willingness to cut output further, could see production drop well below 4 million b/d in the absence of some action on prices or production controls. Indeed, Saudi Arabia and other Gulf producers have threatened price cuts of \$2 to \$4 per barrel to arrest eroding oil sales and to force a production-sharing agreement. Such action, however, would constitute a major policy shift by Riyadh, and it is not clear at this point that the

Secret

GI 83-10029
February 1983

Secret

25X1

Saudis have decided to take this step. Moreover, lower prices would not boost oil demand appreciably in the short run and could ignite a series of price cuts by other producers or possible retaliation by Iran against Saudi oil facilities.

On balance, we believe that OPEC will succeed in preventing an uncontrolled price decline by agreeing to a production-sharing arrangement in the coming weeks. This does not preclude the possibility of a small cut of \$2 to \$4 per barrel. Still, because of political animosities within OPEC, a price war cannot be ruled out.

25X1

Secret

Secret

25X1

International Oil Market: The 1983 Outlook

25X1

Introduction

Oil producers will have a difficult time holding the current pricing structure together this year. Unless the industrial countries experience a more robust economic recovery than most forecasters expect, we believe oil consumption will continue to decline. Lower oil use, combined with the prospects of further inventory drawdowns, will likely keep OPEC oil production below yearend 1982 levels through mid-1983. Under these conditions, financial and political pressures on individual oil producers will mount and force a decline, perhaps a sharp one, in prices in the absence of an effective production-sharing agreement.

Recent Consumption Developments

Non-Communist oil consumption in 1982 approximated 44.5 million barrels per day (b/d), 4 percent below 1981 levels and about 13 percent below peak 1979 levels. Partial data for the fourth quarter of 1982 indicate that the drop in oil use has accelerated. In the United States and France, for example, fourth-quarter oil use was down by 8 percent and 12 percent, respectively. Sales of individual products in major developed countries varied last year. Data for the first nine months of 1982 reveal the following patterns:

- Heavy and light fuel oil use registered the sharpest declines, down an estimated 13 and 4 percent, respectively. Sharply lower heavy fuel oil sales reflected substitution of alternative fuels, as well as the recession in fuel-intensive basic industries.
- Gasoline sales declined by 1 percent, largely reflecting a 10-percent decline in Canada and a 1-percent drop in the United States. Despite a 7-cent-per-gallon drop in US gasoline prices, consumption fell as the fuel efficiency of the vehicle fleet continued to improve.

at least two-thirds of the decline in oil use is the result of conservation and substitution, with the balance resulting from economic recession. Reliable information on

recent oil consumption trends in LDCs is unavailable. From fragmentary data, however, we believe oil use in LDCs as a group in 1982 rose only slightly because of high prices, financial problems in several countries, and slow economic growth. The modest growth in demand in most oil-exporting countries was offset by lower consumption in several major oil-importing LDCs.

25X1

25X1

Inventory Adjustment Continues

Overall market weakness in 1982 was compounded by oil industry efforts to reduce excess inventories sharply. We estimate that oil stocks on land fell by about 1 million b/d last year or about 400 million barrels. Despite this drawdown we tentatively estimate that non-Communist primary oil stocks on land at yearend stood at 4.1-4.2 billion barrels, about 91 days of forward consumption (table 1). Considering the historical relationship between stock levels and consumption, we believe that about 100-200 million barrels of primary stocks were still excess at yearend.

25X1

25X1

Complete data on levels of secondary and tertiary stocks¹ are not available. Most major oil companies, however, believe that secondary and tertiary stocks were also drawn down in 1982, partly accounting for the sharp drop in oil use.² In West Germany, for example, consumer inventories in the residential and commercial sector fell by an estimated 20 million barrels last year. Nevertheless, households still have about 170 days' supply—10 percent above the historical average—leaving room for a further drawdown in 1983.

25X1

¹ Stocks held by the secondary distribution system, such as gasoline stations and final consumers, including most of industry.

25X1

² Oil consumption data represent transfers from primary storage or refinery sales.

25X1

25X1

25X1

Secret

Table 1**Non-Communist Primary Oil Stocks on Land, End of Period ^a**

	Billion Barrels				Days of Forward Consumption			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1978	3.6	3.7	3.9	3.9	74	76	74	69
1979	3.5	3.8	4.2	4.3	72	78	81	82
1980	4.3	4.6	4.8	4.6	91	99	97	93
1981	4.5	4.6	4.7	4.6	101	104	100	97
1982	4.3	4.1	4.2 ^b	4.1-4.2 ^b	99	97	93 ^b	91 ^b

^a Estimates include government-owned stocks in Japan and the United States that increased from 18 million barrels in first-quarter 1978 to about 365 million barrels at yearend 1982. The increase amounts to about eight days of forward consumption.

^b Estimated.

Production Patterns

Non-Communist oil supplies averaged an estimated 43.4 million b/d last year, 2.6 million b/d below 1981 levels (table 2). OPEC suffered the brunt of the production cutback as 1982 output including natural gas liquids (NGL) fell to about 20 million b/d, 3.6 million b/d below year-earlier levels. Non-OPEC supplies during the year rose by about 1 million b/d, mainly reflecting increased production in Mexico and the North Sea. []

Price Shaving Continues

Renewed buyer uncertainty about OPEC's ability to defend the \$34 marker price and weaker-than-anticipated fourth-quarter oil demand forced spot oil prices down sharply late in the year (table 3). Arab Light fell to about \$31 per barrel in early December, \$3 below the official price, while spot prices for light African crudes also weakened. Bonny Light fell to about \$32.00 per barrel, \$3.50 below the official price. Spot prices again experienced a decline following the December OPEC meeting, falling by 50 cents to \$1.50 per barrel. Spot price declines, in part at least, reflected cuts in official sales prices (OSP) and price discounting by Iran, Libya, and Nigeria to increase sales:

- Indonesia reduced official prices of various crudes by 47 cents to \$1.90 in mid-November.

- Iran increased oil exports by 600,000 b/d from July to November by holding their OSP at \$4 per barrel below the OPEC benchmark price and offering additional price discounts.
- Libya was able to increase oil production to 1.7 million b/d in November because of price discounting, barter deals, and third-party processing deals.
- Price discounting enabled Nigeria to boost production slightly. []

OPEC Production Quotas

Thus far the OPEC states have been unable to implement an effective oil production-sharing agreement. Last March, OPEC agreed to a 17.5-million-b/d quota in the expectation that demand would recover by the end of the year. Because of weak oil demand and flagrant disregard of production quotas by several members, however, the agreement effectively collapsed last summer. At a December OPEC meeting, the Ministers agreed in principle to support the \$34 per barrel price and to limit overall crude output to 18.5 million b/d in 1983 (table 4). The failure of OPEC to agree to individual quotas or to deal with price differentials, however, makes the agreement on an overall ceiling essentially meaningless. []

Secret

25X1

25X1
25X1

25X1

Secret

Table 2
Non-Communist Oil Supply ^a

Million b/d

	1981	1982				Year ^b
		First Quarter	Second Quarter	Third Quarter	Fourth Quarter ^b	
Total	46.0	43.9	42.0	43.3	44.2	43.4
OPEC	23.5	20.9	18.6	19.4	20.3	19.8
Natural gas liquids	0.8	1.0	1.0	1.0	1.0	1.0
OPEC crude	22.7	19.9	17.6	18.4	19.3	18.8
Algeria	0.8	0.7	0.6	0.7	0.7	0.7
Ecuador	0.2	0.2	0.2	0.2	0.2	0.2
Gabon	0.2	0.1	0.2	0.2	0.2	0.2
Indonesia	1.6	1.4	1.3	1.3	1.3	1.3
Iran	1.4	1.4	2.3	2.5	2.9	2.3
Iraq	0.9	1.5	0.8	0.8	0.8	1.0
Kuwait	1.0	0.7	0.6	0.7	0.7	0.7
Libya	1.1	0.8	0.8	1.4	1.7	1.2
Neutral Zone	0.4	0.3	0.3	0.3	0.4	0.3
Nigeria	1.4	1.4	1.3	1.2	1.4	1.3
Qatar	0.4	0.4	0.3	0.3	0.3	0.3
Saudi Arabia	9.6	7.9	6.3	5.8	5.4	6.4
United Arab Emirates	1.5	1.4	1.2	1.2	1.3	1.3
Venezuela	2.1	1.9	1.5	2.0	2.2	1.9
Non-OPEC ^c	22.5	22.9	23.4	23.8	23.9	23.5
United States	10.2	10.2	10.2	10.2	10.2	10.2
Canada	1.6	1.5	1.4	1.6	1.6	1.5
Norway	0.5	0.6	0.6	0.5	0.5	0.6
United Kingdom	1.9	1.7	2.2	2.2	2.2	2.1
Other OECD	0.8	0.8	0.7	0.8	0.8	0.8
Non-OPEC LDCs	6.3	6.6	6.8	7.1	7.1	6.9
Of which:						
Mexico	2.5	2.7	3.0	3.0	3.1	3.0
Net Communist exports	1.3	1.5	1.5	1.5	1.5	1.5

^a Because of rounding, components may not add to the totals shown.^b Estimated.^c Including net Communist exports.

In late January OPEC members held an extraordinary session in Geneva but again were unable to reach an agreement on pricing and individual production levels. Saudi demands for price adjustments unraveled a previous, tentative agreement on production shares. The Saudis and other Arab countries probably believed that price adjustments were required to protect

themselves from a further erosion in oil market shares. While the Nigerian and the Venezuelan Oil Ministers both claimed that the cartel reached consensus on imposing a new ceiling of 17.5 million b/d, the Gulf Arab delegates, including Saudi Oil Minister Yamani, called the meeting a complete failure.

Secret

Table 3
Oil Prices ^a*US \$ per barrel*

	1981	1982			
	Dec	Mar	Jun	Sep	Dec
Arab Light					
Official	34.00	34.00	34.00	34.00	34.00
Spot	34.15	28.50	31.75	33.40	30.25
Yield ^a	33.72	29.49	31.17	32.12	30.03
Arab Heavy					
Official	31.00	31.00	31.00	31.00	31.00
Spot	30.15	26.00	29.75	31.00	28.00
Yield ^b	28.86	27.26	28.62	29.32	27.50
Bonny Light					
Official	36.50	35.50	35.50	35.50	35.50
Spot	36.40	28.25	35.00	35.00	32.10
Yield ^b	38.58	31.89	33.90	36.32	32.83

^a End of month.^b At Rotterdam.

Lack of meaningful agreement on production quotas will reinforce downward pressure on prices, as buyers further delay purchases in anticipation of a price drop. Indeed, spot crude oil prices immediately fell by \$2 to \$3 per barrel following the OPEC meeting in Geneva. In the absence of production quotas or price cuts, Saudi Arabia and the other Arab Gulf producers will bear the brunt of a further decline in oil sales. Although OPEC muddled through last year, the cartel will be hard pressed to maintain the pricing structure in 1983 unless OPEC members establish an effective production-sharing scheme in the coming weeks.

Outlook for 1983

The demand outlook for the balance of 1983 offers little hope for OPEC producers. We believe that even with modest economic growth of 2 percent in OECD countries, demand for OPEC oil will only average about 20 million b/d in 1983 or about the same as last year. If the expected recovery fails to materialize, demand for OPEC oil could average only about 19 million b/d. It should be noted that this assessment assumes no major change in oil prices. If prices

Table 4
OPEC Crude Oil Production and Quotas*Million b/d*

	Quotas		Production	
	March	December	Second Quarter	December
Total ^a	17.5	18.5	17.6	18.9
Algeria	0.6		0.6	0.7
Ecuador	0.2		0.2	0.2
Gabon	0.2		0.2	0.2
Indonesia	1.3		1.3	1.3
Iran	1.2		2.3	2.9
Iraq	1.2		0.8	0.8
Kuwait	0.6		0.6	0.6
Libya	0.8		0.8	1.7
Neutral Zone	0.3		0.3	0.4
Nigeria	1.3		1.3	1.2
Qatar	0.3		0.3	0.3
Saudi Arabia	7.0		6.3	5.1
United Arab Emirates	1.0		1.2	1.3
Venezuela	1.5		1.5	2.3

^a Because of rounding, components may not add to the totals shown.

decline to \$20 to \$25 per barrel, we estimate that total demand for OPEC oil would increase by 1-1.5 million b/d above our forecast.³

OECD Energy Demand. We expect OECD energy consumption to grow by, at most, 600,000 barrels per day oil equivalent (b/doe) in 1983. In reaching this estimate, we examined the influence of the business cycle on demand, as well as the pace of energy conservation and interfuel substitution.

Business Cycle. The OECD economies have been under serious strain since 1980. Although most government and private forecasters anticipate a recovery

Secret

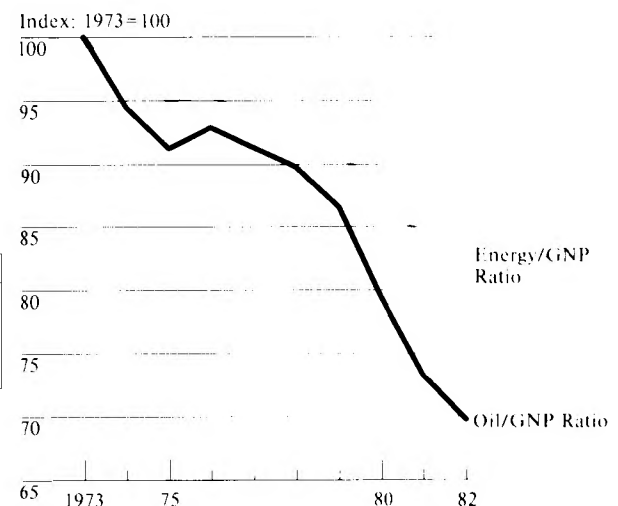
Secret

in 1983, they generally expect it to be substantially weaker than previous postrecession upturns. According to these forecasts, high interest rates, substantial excess industrial capacity, and declining sales to financially troubled LDCs will constrain the pace of economic recovery in OECD countries. The OECD recently reduced its 1983 growth forecast to about 1.5 percent. To account for the range of possible outcomes, we have assumed a low and a high OECD real GNP growth rate for 1983—1 percent and 2 percent, respectively. In estimating quarterly oil demand under each of these growth rates, we constructed a set of quarterly growth rates

Conservation. Lagged effects of past oil price increases continue to spur conservation, although falling real oil prices in some countries have begun to dampen efficiency gains. During 1979-82 OECD real GNP grew by 2.5 percent while energy demand fell by 7 percent. Following a 4-percent drop in the energy-to-GNP ratio in the OECD countries in both 1980 and 1981, we estimate the ratio fell by 2 percent in 1982 (figure 1). Because high interest rates and the recession have slowed investments in energy-efficient capital stock, we have assumed that the overall energy-to-GNP ratio in OECD countries will fall by about 1 percent in 1983. Energy price trends affecting major sectors argue against a faster rate of conservation. In the industrial sectors of the major developed countries, for example, lower real energy prices are already eroding conservation gains. The same is true in the transportation sector in some foreign countries.

Substitution. Slowed by the recession, growth in nonoil energy supplies in 1982 increased by only an estimated 300,000 b/doe, compared with increases of almost 1 million b/doe, annually from the late 1970s through 1981. We believe that under the high economic recovery case, nonoil energy use would rise by about 1 million b/doe. Most of that growth would occur in nuclear power and coal use because of increased electricity demand. According to almost all oil industry assessments, the slide in the use of residual fuel oil to generate electricity is expected to continue in most countries. Forecasters also expect the drop in residual fuel oil consumption to continue in

Figure 1
OECD: Measures of Efficiency



588451 1-83

other sectors, albeit at a slower rate because falling real oil prices could dampen plans for further substitution away from oil.

Non-Communist Oil Consumption. We expect total non-Communist oil consumption to fall by about 1 percent to roughly 44.2 million b/d under our higher growth scenario; lower OECD consumption is partially offset by a small increase in LDC oil use. Should the lower growth scenario materialize, total non-Communist oil consumption would fall to about 43.7 million b/d. In either case, we expect oil use during the first half of 1983 to remain below year-earlier levels. According to our higher growth case, however, by the end of 1983 consumption should begin to rise above 1982 levels, assuming that the OECD recovery accelerates to an annual rate of 3 percent during the second half. If economic growth were to average 3 percent for the year (1 percentage point higher than we have assumed), oil consumption would approach 45 million b/d.

Secret

Secret

Table 5
Non-OPEC Production ^a

Million b/d

Energy Prices

	1982	1983	Capacity
Total ^b	23.5	24.0	
United States	10.2	10.1	10.1
Canada	1.5	1.6	1.7
Norway	0.6	0.7	0.7
United Kingdom	2.1	2.2	2.2
Other OECD	0.8	0.8	0.8
Non-OPEC LDCs	6.9	7.2	7.5
Of which:			
Mexico	3.0	3.2	3.3
Net Communist exports	1.5	1.4	

^a Including natural gas liquids.^b Because of rounding, components may not add to the totals shown.

Inventories. [] oil stocks are near desired levels []

[] a further drawdown in 1983 is probable, particularly if consumption and prices weaken significantly or if, as preliminary data indicate, the fourth-quarter 1982 drawdown proves to have been less than anticipated. []

We have assumed a 200,000-b/d inventory drawdown in our higher growth case and a 600,000-b/d drawdown in our lower growth case. Both cases assume a decline in commercial stocks and a 300,000-b/d increase in government-owned stocks, mainly in the United States and Japan. We also expect seasonal inventory swings to diminish. []

[] the combination of high carrying costs, surplus productive capacity, and increased flexibility in the refining system is causing oil companies to carry fewer inventories and shift more of the seasonal

Led by falling oil prices in the United States, the real energy price to final consumers in the seven major industrialized countries fell by about 1 percent in 1982 (figure 2). The combined Big Seven ^a oil price fell 2.5 percent while gas and coal prices continued to increase by 8 percent and 5 percent, respectively. The soft oil market should begin to influence other energy prices in 1983, causing real prices of other fuels to start declining. []

Real oil prices declined 10 percent in the United States last year, but oil prices in some other major industrialized countries rose slightly because of the sharp appreciation of the dollar against foreign currencies. Since oil prices are denominated in dollars, real oil prices in Western Europe as a whole fell by only about 1 percent while prices in Canada and Japan rose about 5 percent. Barring a continued rise in the dollar against the currencies of the other major industrialized countries, we expect real oil prices for the Big Six to fall in 1983, further dampening conservation efforts and substitution away from oil. []

^a United States, Japan, West Germany, France, United Kingdom, Canada, and Italy. []

pattern of oil consumption onto producing countries. As a result, oil production will probably mirror the seasonal rise and fall in consumption. []

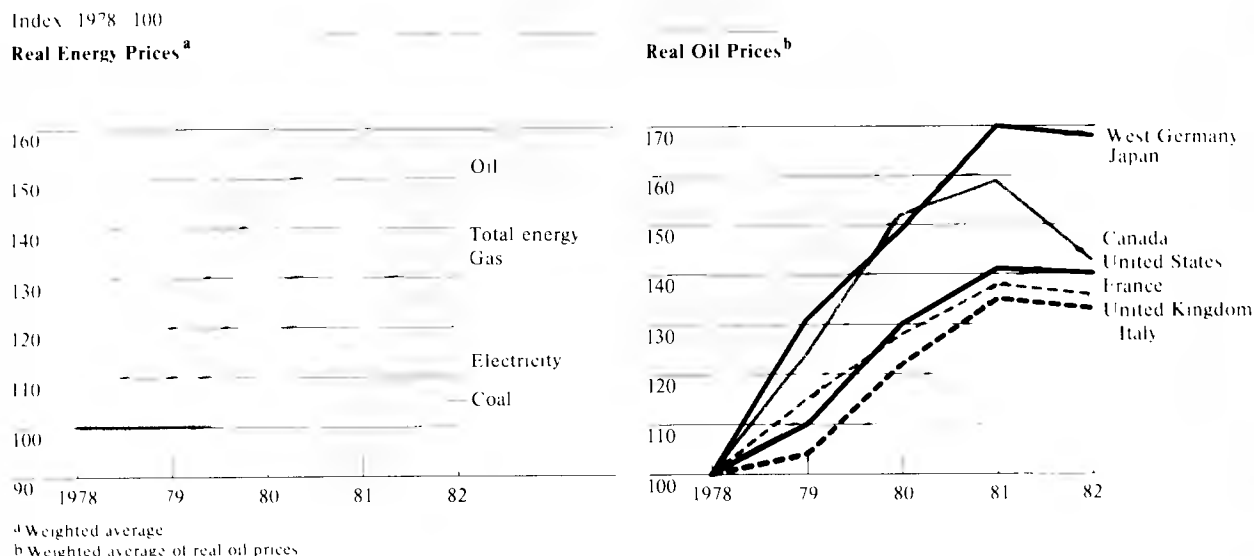
Non-OPEC Supplies. We expect non-OPEC supplies to rise by about 500,000 b/d in 1983 to 24.0 million b/d including NGL and net Communist exports. Most of the increase will come from Mexico and other LDC countries, the North Sea, and Canada (table 5):

- We expect Mexican production, including NGL, to rise by about 200,000 to 300,000 b/d to 3.2 million b/d. Mexico's ability to increase production above this level will be constrained by weak oil demand, particularly for the poor-quality crude oil that Mexico could most easily produce.

Secret

Secret

Figure 2
Big Seven: Real Energy Price Trends



588452 1-83

- We expect production in other LDC countries—including Angola, Brazil, Egypt, India, and Malaysia—to rise by a total of about 100,000 to 200,000 b/d.
- UK and Norwegian North Sea production will rise by a total of about 100,000 b/d.
- Canadian officials expect domestic production to rise by 100,000 b/d to 1.6 million b/d.
- Industry forecasters anticipate small declines in US production and in net Communist exports.

Demand for OPEC Oil

Given our estimates of oil consumption, inventory behavior, and non-OPEC supplies, demand for OPEC oil in 1983 under our higher growth case should approximate 1982 levels of about 20 million b/d (including NGL), but 11 million b/d below peak 1979 levels. Should the lower growth scenario materialize,

demand for OPEC oil would approximate 19 million b/d (table 6). Inventory adjustment and seasonal factors could cause wider-than-normal swings in demand for OPEC oil during the year.

We believe the next several weeks will be a critical period for the oil market. Oil demand is already trending sharply downward, forcing OPEC to make some difficult decisions in the next few weeks. Moreover, oil use normally declines by about 3-4 million b/d during the spring and summer months. The decline, however, is usually offset by increased demand for inventories. If companies are successful in shifting most of the burden of seasonal adjustment onto oil producers, demand for OPEC oil could fall by 1-2 million b/d below fourth-quarter 1982 levels. Under these circumstances, total OPEC production could approximate 18 million b/d, and demand for

Secret

Secret

Table 6
Non-Communist Supply and Demand Scenarios ^a

Million b/d

	1982	1983				
	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Higher growth case						
Consumption ^b	44.5	45.5	42.6	43.0	45.7	44.2
Supply	43.4	43.0	43.1	44.5	45.2	44.0
Non-OPEC	23.5	23.9	24.0	24.2	24.2	24.0
OPEC	19.8	19.1	19.1	20.3	21.0	20.0
Inventory change	−1.1	−2.5	0.5	1.5	−0.5	−0.2
Lower growth case						
Consumption ^b	44.5	45.0	42.0	42.5	45.3	43.7
Supply	43.4	42.2	42.0	43.7	44.3	43.1
Non-OPEC	23.5	23.9	24.0	24.2	24.2	24.0
OPEC	19.8	18.3	18.0	19.5	20.1	19.1
Inventory change	−1.1	−2.8	0	1.2	−1.0	−0.6

^a Because of rounding, components may not add to the totals shown.

^b Excluding refinery gain.

Saudi oil could fall below 4 million b/d. Demand for OPEC oil is already dropping as buyers postpone liftings in anticipation of a future price decline. []

The Oil Price Question

In the absence of substantial supply curtailments, market factors indicate the potential for a price decline some time this year, perhaps before the winter ends. [] the OPEC states will take the necessary action in time to prevent a substantial oil price decline. [] OPEC members realize that widespread price discounting could cause a price collapse that would lower revenues for all producers. A price collapse would damage the economic, political, and financial position of most OPEC countries in the short run. OPEC's own analysis, as well as ours, has shown that lower prices would not push demand up significantly because oil consumption is relatively unresponsive to price changes in the short run. Using past relationships, we calculate that at \$20 per barrel, demand for OPEC oil during 1983 would be 1.5 million b/d higher than would be the case at current prices. Assuming a base case of 16 million

b/d of OPEC exports and a price of \$33 per barrel, a drop in oil prices to \$20 per barrel would cut aggregate OPEC revenues by one-third or by about \$65 billion, even allowing for the estimated 1.5-million-b/d rise in exports. []

We believe that there is a growing likelihood that oil prices will decline, but we think that the OPEC states will be able to limit the decline to about \$2 to \$4 per barrel:

- [] actions by non-OPEC producers could be an early indicator of price trends. Saudi Oil Minister Yamani has predicted that North Sea prices will soon fall by \$2 to \$3 per barrel. Although the British National Oil Company announced in December that contract prices would be held flat through first-quarter 1983, contracts allow for price renegotiations if market pressures dictate. Mexico is also under pressure to reduce prices. A \$2 to \$3 cut in non-OPEC prices likely would cause a \$4 cut in Saudi prices and a \$2 reduction for North African crudes.

Secret

Secret

- If non-OPEC producers hold the line on prices, the Saudis and other Gulf producers will probably opt for a \$2 per barrel price cut with others holding the line and agreeing to a production-sharing formula.

[REDACTED]

25X1

We cannot rule out the possibility of a much larger oil price decline. Political animosities between Saudi Arabia and Iran and Libya are sufficient to override rational thinking in favor of a more emotional response to setting prices. The Saudis and their fellow members of the Gulf Cooperation Council with huge financial reserves could more easily handle a drop in revenues resulting from a price cut. In any event, we do not believe that Riyadh will stand by and absorb the full brunt of the decline in demand for OPEC oil that we anticipate over the next several months. That would mean a reduction in Saudi oil output to well below 4 million b/d. [REDACTED]

25X1

Secret

Page Denied

Next 1 Page(s) In Document Denied

Secret

Approved For Release 2008/01/11 : CIA-RDP84S00558R000100150005-3

Secret

Approved For Release 2008/01/11 : CIA-RDP84S00558R000100150005-3